MINUTES OF BOSTON RETIREMENT BOARD

Administrative Session
December 16, 2020
Boston Retirement Board, Room 716
Boston, Massachusetts 02201

TRUSTEES IN ATTENDANCE: Daniel J. Greene, Mayoral Appointed Member (Chairman); Maureen A. Joyce, Ex Officio Member; Thomas V.J. Jackson, Fifth Member; Michael W. McLaughlin, Elected Member; and, Michael D. O’Reilly, Elected Member (All Members remotely present).

STAFF IN ATTENDANCE: Timothy J. Smyth, Executive Officer; Padraic P. Lydon, General Counsel; John F. Kelly, Investment Analyst; Ellen M. McCarthy, Comptroller; Christine M. Weir, Operations Officer, Gregory Molina, Board Secretary (All Staff remotely present except for Mr. Smyth).

ALSO IN ATTENDANCE: Michael Manning, Kiley Fischer, Will Forde of NEPC; Greg Mattiko, Alexandra Melhuish, Kristina O’Gannon, Phillip Fan of Wellington; Meg Reynolds, Bryan Ward, Craig Fletcher of Westwood; Guilherme Valle, Jon Feinberg, Natascha Willans of ABS; Kevin Bernzott, Sean Greely, Bart Connor of Bernzott Advisors (All presenters remotely present).

Administrative Session Convene

The Board voted unanimously via roll call (4-0) to enter into Administrative Session at approximately 10:03 a.m.

Previous Minutes

Motion made, and seconded, to accept the Administrative Session Minutes of the October 21, 2020 and November 18, 2020 meetings as presented. Roll Call Vote: Member McLaughlin; Aye, Member O’Reilly; Aye, Member Jackson; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Outstanding/Ongoing Administrative Issues: Timothy J. Smyth, Executive Officer

PERAC Pension News No. 56

Mr. Smyth pointed out that the PERAC pension newsletter was for the Boards educational purposes only.
Thank You Letter to BPPA

Mr. Smyth also stated that there was a thank you letter written to the Boston Police Patrolmen Association (BPPA) for their participation in two seminars that were held at the BPPA hall on behalf of the Board. The seminars were very successful, in which five BRS staff members were able to retire 25 Boston Police Officers in a safe, socially distant environment.

Personnel updates

Mr. Smyth informed the Board that Sandie Lau has tendered her retirement from the BRS effective January 31, 2021. Sandie will be missed as she has a wealth of Chapter 32 knowledge.

Mr. Smyth also noted that John McCarrick, who has been with the BRS for eight years, has resigned to take another position within the City.

Lastly, Mr. Smyth noted that BRS staff member Jack Krauss passed away at the tender age of 64. He had been with the Board for over 33 years and will be sorely missed.

Fifth Member vacancy

Mr. Smyth reported that notice of the fifth member vacancy was filed with PERAC. He expects to get resumes and cover letters by the end of the month, which he will share with Board. Chairman Greene asked if it is expected for the Board vote for the fifth member in January 2021. Mr. Smyth responded that ideally that would be the case.

Outstanding/Ongoing Investment Issues: John Kelly, Investment Analyst

NEPC

Mr. Manning stated to the Board that Kevin Bernzott will be joining the call later to discuss the changes in his firm and what effect it has on his firm. Mr. Manning also shared that due to their underperformance, Segall Bryant & Hamill will be reducing the International Small Cap management fee by 25% for 2021.

Emerging Market Equity Search

Mr. Manning opened by reminding the Bard at the November meeting, the Core and Growth candidates for the Emerging Markets Equity search were reviewed, and finalists were selected from each category. At today’s meeting, the Core finalists will be presenting. As a reminder, the three Growth finalists will be present at the January meeting.
Wellington

Mr. Mattiko, opened that effectively, this is a bottom up stock picking portfolio in Emerging Markets. At Wellington we believe that in the long run, a security’s intrinsic value is reflected in its stock price. In the near-term, a stock can deviate meaningfully from its intrinsic value due to a few key elements.

The strategy is very capacity constrained. What we have determined is that the capacity is $3 billion dollars. It’s been $3 billion dollars for the better part of 10 years. We do not take the benchmark into consideration when we construct the portfolio. We are of course aware of what’s in the benchmark. But we are trying to beat the benchmark by three to five or five to seven-year period.

Mr. Manning asked Mr. Mattiko to elaborate on the firm’s percentages over/underweight to MSCI Emerging Markets Index. Mr. Mattiko replied that we look for absolute return. We look for the expected return from every individual stock. Mr. Kelly asked if Wellington focused more on small cap companies seeing as the firm looks for companies to double in three to five years. Mr. Mattiko stated that smaller cap companies have two benefits. They can grow faster compared to large cap companies and they are much less sufficient so there is not as much coverage.

Westwood

Mr. Fletcher began by sharing that there was a lot of focus on country allocation and they believe that bottom up stock picking really has an opportunity in emerging markets. They look for companies that don’t survive a crisis but thrive through a crisis. They follow the cashflow. They look at how companies generate cash and how they use the cash. If the math doesn’t add up we don’t own the company.

Mr. Manning asked about China. The bench mark in China has grown from 20 to 40 and yet Westwood has held a high single digit position. Mr. Ward stated that China’s first few big jumps have happened because MSCI was tired of being blackballed from China and not making money. So, they announced if shares don’t meet 17 of their 18 criteria’s that they are putting them in anyway. Westwood believes, most of the companies don’t meet the quality standards that are required to be part of the index.

Member McLaughlin asked of Westwood’s sector exposure to energy. Ms. Reynolds stated that in the energy space they currently own an oil service provider
that provides steel pipes to the sector. They do not have direct energy exposure at this time.

Next Mr. Manning stated that the next presenter utilizes a different strategy than the previous presenters. The first two pick individual securities where ABS pick managers that operate in different countries and regions.

**ABS**

Mr. Feinberg opened by stating ABS’ approach is different from most others because they rely on the utilization of local specialists, that’s boots on the ground, local knowledge, highly focused teams. Emerging markets are inefficient. They’re very large, quite diverse and it’s difficult for analysts to cover them.

As you will note their fund has grown swiftly to over 1.1 billion and the reason is simple; consultants and trustees have been drawn to their core diversified approach where they do consistently produce alpha without having to bet on growth or value. Lastly, we’re offering a reduced fee of 75 basis points because of our long-standing relationship with NEPC. Mr. Feinberg then introduced Mr. Valle.

This portfolio was started with 100 million dollars from the pension fund from the City of Seattle, working with their consultant which happens to be NEPC. They were thinking outside of the box and we developed this approach together. So, we’ve been approved and blessed by NEPC since the launch of this strategy.

The Board, BRS staff and NEPC staff discussed the merits of all presentations as it pertains to returns, SSgA, funds allocation, China investments and performance against the benchmarks.

*Motion made, and seconded, to terminate State Street Global Advisors Emerging Market product. Roll Call Vote: Member O’Reilly; Aye, Member Jackson; Aye, Member McLaughlin; Aye, Member Joyce; Aye, Chairman Greene; Aye.*

*Motion accepted (5-0)*

*Motion made, and seconded, to hire ABS Investment Management Emerging Markets Portfolio Emerging Markets core space to be funded by the assets of $100 million from State Street Global Advisors product that was terminated.*

*Roll Call Vote: Member O’Reilly; Nay, Member Jackson; Aye, Member McLaughlin; Aye, Member Joyce; Aye, Chairman Greene; Aye.*

*Motion accepted (4-1) (Member O’Reilly voted Nay)*
Bernzott Firm Update

Mr. Bernzott opened by telling the Board Three of my investment staff left without notice about a month and a half ago. The three folks that left had 38 years of combined experience with me here. But the current team has 110 years of combined experience. I think you’re in good hands. My philosophy and process remain unchanged. We still buy high quality companies at a discount to fair value and hold them for a long time with very little turn over. We still run a concentrated convicted portfolio of small cap names. We are confident in our time-tested process. We are excited in the job that we continue to do for our clients. We don’t have stars here, people continue to come and go but the process remains the same.

Mr. Manning stated that one of the concerns anytime you lose senior employees is that the money goes out the door also. Mr. Bernzott stated that assets under management remain north of $1.2 billion we run a concentrated portfolio and we are taking some extra time to do calls like these. We have not lost any appreciable amount of business with one exception. We had a public fund that joined us recently. They funded about $140 million on October 1st and could not get over the fact that these three individuals left five weeks later.

Mr. Kelly asked if Mr. Bernzott felt he had adequately filled the loss of the three staff members. Mr. Bernzott stated that he feels he has. Over the last 30 years he feels that he has hired opportunistically. The folks we’ve brought on we have been talking to for some time. Even before the three staffers left. I think we’re adequately staffed for the level of assets we manage. We are in good shape now but I will tell you that it’s probably likely that we would hire someone next year of the analyst type to add even more depth and functionality to the team.

Member Jackson asked if he is doing anything differently culturally or in terms of HR as a result of the staff loss. Mr. Bernzott answered that he is leading a team of eight people. If he had an HR department you’re talking to him. Going forward they will hire people that are a good fit with their culture. They are going to continue putting their clients first and taking the best care of our people that we can. No, I’m not going to do anything different. We don’t have people in handcuffs or long-term contracts or anything like that. No change on the HR front.

November 2020 Flash Report

Mr. Manning reported that the BRS investment portfolio for the month of November was up +7.1%. A great return for the month. Overall Large cap continues to do well. An amazing surprise from his perspective is that you see in the three-month column. It’s been a shift towards Value from Growth. It is
fascinating that Zevenbergen who participated so much in the Growth market, +107% for the year. In the last seven months they beat not just the Growth benchmark, they beat the Value benchmark too.

Asset Allocation Rebalance
Ms. Fischer stated that based on the November asset allocations. Large Cap is slightly overweight while International is slightly underweight. We would recommend shifting some of the assets from Large Cap (Rhumbline and D.E. Shaw $40m each) into International Equity (Todd and Scott and Emerging Markets (Lazard), while at the same time we would use that as an opportunity to raise some cash to be used for future capital calls that are expected.

Work Plan
Mr. Manning stated that at the January meeting we'll talk about the asset allocation assumptions, discuss any changes about the overall portfolio, interview the three Growth Managers, Axiom, Columbia, Vontobel, begin to look at the pacing plans for Private Equity, Private Debt and Real Estate. NEPC has initiated the Private Equity search for the diverse fund to fund respondents and will come back in January. They expect that there will be a limited list of those in order to meet with them in February.

Outstanding/Ongoing Financial Issues: Ellen M. McCarthy, Comptroller
November 2020 Financial Snapshot
Ms. McCarthy reported the monthly December 2020 total contributory pension payroll, to be: $55,268,671; Total Contributory Payees: 15,243; Total non-contributory pension payroll, to be: $292,691; Total non-contributory payees: 41; New Regular Retirees: 45; New Survivor/Beneficiaries: 2; Disability Retirees: 0; Refunds and transfers: 35 totaling $515,840; Members Refunds: 26 for $267,688 Members Transfers: 8 for $224,371; Option B Refunds: 1 for $23,781; Operational Warrants: $389,320.

CY21 Operating Budget
Ms. McCarthy presented the CY21 Operating Budget to the Board. The proposed budget is a -19% decrease from the CY20 budget. The decreases are primarily related to; personnel decreases (senior staff retiring or resigning) and the removal of open positions not expected to be filled soon; technology decrease of -35% due to not having prepaid hours for Vitech; finance decreased -4% due to lower auditing fees; legal and disability decreased -13%; and, general office expenses decreased -10%. There remains $500 thousand dollars in the budget for office renovations, which been suspended due to Covid.
Motion made, and seconded, to accept CY21 operating budget as presented.

Roll Call Vote: Member O'Reilly; Aye, Member Jackson; Aye, Member McLaughlin; Aye, Member Joyce; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Outstanding/Ongoing Operations Issues: Christine M. Weir, Operations Officer

November 2020 payroll update

Ms. Weir provided an update on the payroll number for the month of November. There were 47 possible new cases, of which, 42 made it to the November 2020 payroll. Of the five cases did not make it, Ms. Weir reported that 2 were in calculations and 3 members did not return final papers a timely fashion.

Outstanding/Ongoing Legal Issues: Padrac P. Lydon, General Counsel

Mr. Lydon informed the Board that he had no agenda items at this time.

Motion made, and seconded, to enter Executive Session at approximately 12:14 p.m.

Roll call vote; Member O'Reilly; Aye, Member Jackson; Aye, Member McLaughlin; Aye, Member Joyce; Aye, Chairman Greene; Aye.

Motion accepted (5-0)

Respectfully submitted,
BOSTON RETIREMENT BOARD

Daniel J. Greene, Esquire
Mayoral Appointed Member, Chairman

Maureen A. Joyce
Ex Officio Member

Michael W. McLaughlin
Elected Member

Michael D. O'Reilly
Elected Member

Thomas V.J. Jackson
Fifth Member